



CITY-COUNTY REINVESTMENT TASK FORCE



Jim Bliesner • Reinvestment Director

March 29, 2004

Docket No. 04-06
Communications Division
Public Information Room, Mailstop 1-5
Office of the Comptroller of the Currency
250 E St. SW,
Washington 20219

Docket No. R-1181
Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th St NW
Washington DC 20429

Regulation Comments, Attention: No. 2004-04
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street NW
Washington DC 20552

RE: Comments Regarding Revisions to the Regulations Implementing the CRA

Dear Regulatory Representatives:

The purpose of this communication is to urge you to withdraw the proposed changes to the Community Reinvestment Act (CRA) regulations.

The proposed changes include three major elements: 1) increase the asset threshold from \$250 million to \$500 million for banks to be eligible for a small bank exam; 2) establish a weak predatory lending compliance standard under CRA; and 3) expand data collection and reporting for small business lending and home lending.

The City/County Reinvestment Task Force (RTF) is a quasi-public agency established by action of the San Diego City Council and the County Board of Supervisors. The mission of the RTF is to monitor impacts of private lending locally and to develop strategies for reinvestment in the region. The RTF is Co-Chaired by a City Councilman and a member of the County Board of Supervisors and has five major lenders, five non-profits doing housing and economic development and representatives from three other cities in the County. It has actually functioned since 1977, just about the time that the CRA was created. It has an exceptional record of maintaining the three-way partnership between banks, government and community. The idea is to communicate regarding community credit needs and to work together to address those needs. In the last reporting year, the ten participating lenders provided over \$1.8 billion dollars in CRA identified loans, grants and investments to consumers in San Diego County.

This commitment has increased annually since 1993 and realistically has added new customers and new products as well as creating the affordable housing industry in the region. This partnership has shown that by working together, low-income communities can benefit dramatically.

Small Bank Exclusion

You might notice from the charts that banks working in partnership are the larger banks representing about 90% of the local market. Those absent are the smaller local banks. For all intents and purposes the smaller banks are non-players in the community reinvestment opportunities enjoyed by the larger banks. Large banks make profits through reinvestment.

Small banks continue to suffer under racial and economic stereotypes about what it takes to do lending in poor communities. They contend it takes more time and more resources to do so. These are stereotypes even less founded in data today than they have been in the history of banking in the US. They are vestiges of the past.

Mapping of bank branches in San Diego shows that small banks are almost exclusively located in wealthy, mono-ethnic suburbs while larger banks, have some branches in lower income, more ethnically diverse Communities. My guess is that this pattern exists across the US.

A rule, which excludes small banks from even self-monitoring, is not beneficial to those banks, economically or ethically. It is particularly destructive to the larger community.

Small Business Data Collection

We encourage the regulators to require the collection of lending to small businesses using, at minimum, census tract and dollar amount information.

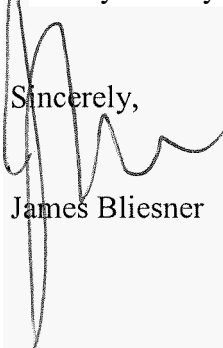
Major banks have provided the RTF with small business lending data by zip code in the past. On examination of this data we have been able to identify specific gaps in the local market and, working cooperatively with the lenders create special new programs to address these gaps including CDFI's, a new locally owned bank, equity funds, etc. As the markets have grown the products have been duplicated into the larger bank inventory and become effective revenue generators. Data is a vital marketing tool and small banks restrict themselves from this benefit by seeking exclusion from data collection responsibilities.

Predatory Lending

The proposed CRA changes contain an anti-predatory screen that will actually perpetuate abusive lending. The proposed standard states that loans based on the foreclosure value of the collateral, instead of the ability of the borrower to repay, can result in downgrades in CRA ratings. The asset-based standard creates a de-facto definition of predatory lending without taking into account other predatory tactics. These tactics include: 1. Targeting of minorities, low-income, and the elderly for sub-prime lending; 2. Originating sub-prime loans to borrowers that could qualify for prime loans; 3. Prepayment penalties; 4. Encouraging borrowers to refinance unsecured debt as a means of increasing the loan size and related point, fees, and commissions; 5. Selling of single credit insurance products as part of the home loan; 6. Mandatory arbitration provisions; 7. Excessive points and fees; 8. Yield spread premium payments or other compensations that rewards brokers for steering borrowers to higher cost products and larger loans; and 9. Purchasing and investing in predatory loans as part of a mortgage backed security.

Any standard that does not address the aforementioned nine tactics will allow CRA exams to be used to cover up predatory lending practices. Rigorous fair lending audits and severe penalties on CRA exams for abusive lending are necessary in order to ensure that low income consumers are protected.

Thank you for your consideration of these issues.

Sincerely,

James Bliesner